

TENNESSEE GENERAL ASSEMBLY  
FISCAL REVIEW COMMITTEE



FISCAL NOTE

SB 2171 – HB 2907

February 4, 2012

**SUMMARY OF BILL:** Requires the State Treasurer to establish a new defined contribution retirement plan for certain state employees beginning employment with the state on or after July 1, 2012. Defines “employer” for the purpose of identifying employees eligible for participation in the new plan, and those that would be excluded from participation. Closes the existing defined benefit plan to certain state employees hired on or after July 1, 2012. Establishes the state contribution to the defined contribution retirement plan on behalf of each new state employee who enrolls to consist of a normal contribution rate of no less than six percent, and no more than 15 percent, of the employee’s earnable compensation, plus the accrued liability contribution rate to the defined benefit plan, which shall be equal to the percent of total earnable compensation paid to all employees who are members of the retirement system. Requires the accrued liability contribution rate to be periodically reviewed and adjusted as needed to pay the defined benefit plan’s unfunded actuarial accrued liability. Defines multiple terms related to the new defined contribution retirement plan. Requires the State Treasurer to enter into a contract with a third party financial institution to manage the new plan. Authorizes the State Treasurer to promulgate rules and regulations to implement the provisions of the bill.

**ESTIMATED FISCAL IMPACT:**

**Other Fiscal Impact – The fiscal impact for this bill is dependent upon multiple unknown factors. Based on information provided by the Tennessee Consolidated Retirement System (TCRS), unknown decreases in state expenditures are more likely over the short term due to the current state contribution rate to TCRS. However, the probability for increased state expenditures rises over the longer term due to the future unpredictability of the state contribution rate to TCRS. Otherwise, the fiscal impact for this bill cannot be quantified with reasonable certainty.**

Assumptions:

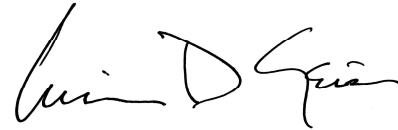
- The net fiscal impact of this bill is dependent upon multiple unknown factors such as the accrued liability contribution rate, future changes to the accrued liability contribution rate, the state contribution rates to both the new defined contribution plan and the existing defined benefit plan, future changes to both state contribution rates, the number of plan participants, when participants will begin to draw retirement benefits from the new plan, rates of return on investments, gains and losses on plan assets when divested,

plan expenditures for the new defined contribution plan including vendor and management fees, and the change in plan expenditures for the existing defined benefit plan.

- According to TCRS, state expenditures could increase if the state contribution rate to TCRS falls below six percent. This would occur because the state contribution to the new defined contribution plan would remain at a minimum of six percent at a time when the state contribution rate to defined benefit plan of TCRS would be below six percent. However, TCRS indicates the current state contribution rate to TCRS is currently 14.91 percent and scheduled to be increased to 15.01 percent on July 1, 2012. Further, the only periods of time where the state contribution rate to TCRS fell below six percent was from approximately 1957 to 1968, and again from approximately 1998 to 2000. As a result, any increase in state expenditures due to the state contribution rate to TCRS falling below six percent is unlikely to occur over the short term.
- TCRS suggests that a decrease in state expenditures is more likely over the short term; however, the extent of any such decrease is dependent upon the multiple unknown factors identified above.

#### **CERTIFICATION:**

The information contained herein is true and correct to the best of my knowledge.



Lucian D. Geise, Executive Director

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